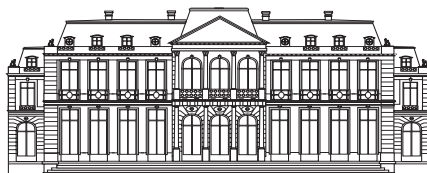


Organisation for Economic Co-operation and Development



Organisation de Coopération et de Développement Économiques

Seminar on

**The Development of
Training, Accreditation and Licensing
Programmes for Accountants and Auditors
in Transition Economies**

in Co-operation with the

United States Agency for International Development (USAID)

Bank Accounting Theory, Practices, Training and Certification

by

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1. Introduction

The importance of the efficiency and effectiveness of banking institutions and their activities is well recognized in the CIS countries, but not enough focus may have been given to: 1) the nature of bank accounting and auditing concepts and theory 2) banking sector accounting reform 3) the development (training) of persons in and for the banking sector, and 4) the scope for special certification (or diplomas) in bank accounting and auditing.

Banking requires relevant and reliable financial information for making economic – financial decisions. Critical issues inherent are regulation and compliance, capital adequacy, asset/liability management, operating performance, etc., and bank accounting is to cater to these tasks. Both financial and managerial accounting elements are involved, while bank auditing also has specific features. Bank Accounting and Auditing have been developed as a distinct theory and practice.

For clarification we might distinguish three levels of banking and banks:

1. central banks
2. state banks
3. commercial banks

In the banking sector in former Soviet Union republics, Form 700 was the basic Chart of Accounts for all banks; it was a long list of all sorts of accounts which served central control and statistical purposes but appeared to have limited significance for market oriented evaluation, policy and decision making purposes. Most countries in the CIS have now restructured this account in different formats.

In this brief outline, three important elements will be touched upon:

1. the banking system and practices, and the role of accounting and auditing
2. banking sector accounting reform
3. the training and certification for bank accountants and auditors

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2. The Bank Chart of Accounts and the Banking Activities in CIS Countries

In most CIS countries there exist Rules of Accounting and Reporting of Banks, and these banks are required to use the unified Chart of Accounts for Banks. The Central Bank generally prescribes the Chart, and all banks have to conform to the Common Chart of Accounts, which is different than those for business and commercial enterprises. Bank accounting and bank regulation are linked.

Banks and other similar financial institutions in several CIS countries currently operate in the absence of an adequate bank accounting and auditing framework, without the tools for efficient and effective management. As known to you, Soviet accounting was historically geared towards the objective of ensuring that the state had full central control over the use of resources. The accounting profession concentrated on bookkeeping and automatically followed detailed rules, giving little attention to accounting concepts, principles (standards). There was also generally no proper auditing (as the word is understood today) of bank accounts; instead, tax authority representatives made bi-annual inspections to ensure compliance with rules and regulations.

The inadequacy of bank accounting systems limited the understanding of financial statements, while the absence of appropriate reporting and supervisory guidelines constituted significant dangers for the financial system. The weaknesses in the system related to the fact that financial statements did not present a fair picture of bank performance, solvency, profitability, and liquidity to depositors, shareholders, and third parties, nor did it demonstrate that banks satisfied prudential criteria. Governments in the respective CIS countries have now well recognized the importance of developing accounting and auditing standards for banks and similar financial institutions.

A regulatory framework and related supervisory functions are essential elements for ensuring the soundness of the banking system. The Law on Banks and Banking Activity in several CIS countries vests the Central Bank with the responsibility for these functions. Accordingly, the Central Bank is generally in charge of (a) issuing bank licenses, (b) designing prudential regulations, (c) exercising off-site and on-site supervision and, (d) applying sanctions on banks that fail to comply with the

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regulations or represent a threat to the interest of their debtors or creditors. The institutional, legal and regulatory frameworks in which the financial (banking) system operates are still evolving.

3. Banking Sector Accounting Reform

The following basic deficiencies tend to exist for commercial banks in several CIS countries:

- Lack of sound underlying accounting principles renders even some well designed reports of little use for their intended purpose
- There is a general lack of detailed instructions for banks to follow when completing the reports or for Supervision (at least in theory) in its reviews, calling into question the reliability, relevancy and comparability of the data.

The process of accounting and reporting in the banking sector does require change in the direction of international accounting standards. The specifics are already outlined in a separate accounting standard. (International Accounting Standard # 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”) Such standards also will enable the better coordination of activities and reporting regionally and for international purposes, such as for the International Monetary Fund (IMF).

With regard to the commercial banks, further attention also needs to be paid to the adequacy of their internal structures for maintaining a proper level of control over the operations.

Essentials of Accounting Reform have to include in our opinion:

1. presentation of accounts: establish a format which conforms to international norms and reflects business reality.
2. Accounting Principles (Standards): Reform in this area will take time. But those principles, on the basis of materiality, which warrant immediate attention appear to be:
 - a. Accrual method of accounting for interest bearing balances
 - b. Rules of consolidation
 - c. Distinction between capital and liabilities
 - d. Timing of recognition of accounting events.
 - e. Rules for netting assets and liabilities

[Such principles are to be geared to the international accounting standards]

As for organizational reform some principle features appear to be:

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1. Increase the responsibility and authority of those departments which are concerned with accounting matters – Central Accounting, Supervision, Audit
2. Over time, consolidate responsibility for all commercial bank reporting in Central Accounting. This is necessary to ensure maximum efficiency and coordination.
3. To accomplish these tasks, the matter of personnel needs to be addressed i.e., the people and skills needed to work in different areas when necessary. This requires extensive reorientation.

The aim is that the banking sector will operate according to standards of financial accounting and reporting which are internationally recognized by accounting professionals, to support sound commercial banking principles. As a necessary condition of this, the banking sector will have to possess a corps of well-trained and qualified professional accountants (upper and middle level) who are capable of maintaining high standards of accounting practice, and who can deal on equal terms with their accounting colleagues in other transition and developed economies.

4. Training Bankers

Preparing banks to operate in a more market oriented environment may require different norms and methods from those applicable to the former Soviet banking system. To strengthen the banking profession in many CIS countries, massive training and retraining programs have been found necessary for managing banks, marketing and delivering banking services, controlling risk, ensuring banks' financial viability and performance, and carrying out basic banking operations. Classical models of training for an established banking framework do not necessarily apply.

Personnel in the banking system are often unprepared to carry out the banking activities that their new roles require. There is the need for basic training, whereby a program of core skills should be introduced. Those core skills would permit bankers to participate effectively with foreign technical experts in institutional development of the banks as well as in the evolving financial markets. After having outlined a basic (core) approach to managing the major banking functions, more bank-specific training programs and courses are to be developed.

Western governments and institutions have been assisting in different forms of training bankers. This training has been mostly done through short courses that offer exposure to a different banking culture

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rather than intensive longer term training, based upon general accounting knowledge. The magnitude of the training needs may demand training programs with a much greater degree of consistency and depth. A number of initiatives have already been made, including for example, the creation of the Moscow Banking School, established with the support of the European Bank Training Network and the Commission of the European Communities. Other initiatives have been carried out in a number of cities. This effort might be rationalized and extended in various countries.

Banks also need to develop strategic, tactical, and financial planning skills to orient or reorient the way in which they are managed. The curriculum might be extended to include such topics as: money and banking, capital markets, international banking, trade finance, general management, marketing, and retail banking.

5. Accounting and Auditing Training and Certification for Banking

Bank accounting, by means of bank training schools or centers (both externally and internally), has received increased attention. Several republics have established banking training centers and offer courses, mostly of a short time duration, but it is important to also establish longer term programs, 6-12 months, covering a whole series of topics for those moving into bank or financial institutions accounting or auditing. Such training could partially be carried out by means of correspondence training or long distance training and computer based training. Bank Accounting and Bank Auditing have certain specific features from regular (enterprise) accounting and auditing which need to be focused on. Furthermore to give status to such training an official Certificate or Diploma should be awarded for those having passed the necessary tests, potentially for various levels. Bank Auditing should be based on the understanding and knowledge of bank accounting. Furthermore an Association or Institute of Bank Accounting and Auditing could play a valuable role in developing the practice and educational and certification activities by means of various formats of in depth training. Bank Accounting and Auditing are based on a somewhat distinct body of knowledge

Although a number of countries have moved in this direction, greater focus may have to be given to the whole field of Bank Accounting and Auditing than has been done to date, also involving banking

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reform. Coordination within the CIS also could be enhanced, linking up the bank training centers with those in western economies, as has already been done in several instances.

Since the banking sector, as we currently experience, plays such a vital role in the economic development process of countries, greater focus may need to be given to sound bank accounting and auditing training, and certification.

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